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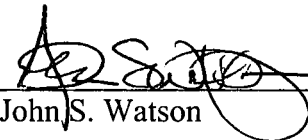
TENNESSEE REGULATORY AUTHORITY

STATE OF TENNESSEE

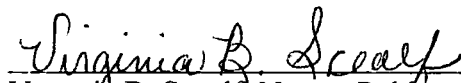
COUNTY OF HAMILTON

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared John S. Watson, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the annexed transcript consisting of 6 pages.


John S. Watson

Sworn to and subscribed before me
this 8th day of September 2004.


Virginia B. Scealf, Notary Public



My commission expires July 12, 2008.

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TENNESSEE-AMERICAN WATER COMPANY
CASE NO. TRA_____
DIRECT TESTIMONY
JOHN S. WATSON

8 1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

9 A. My name is John S. Watson and my address is 1101 Broad Street,
10 Chattanooga, Tennessee, 37401.

11
12 2. Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT
13 CAPACITY?

14 A. I am employed by Tennessee-American Water Company
15 ("TAWC" or "Company") as Vice President and General
16 Network Manager.

17
18 3. Q. HOW LONG HAVE YOU HELD THIS POSITION?

19 A. I assumed this position effective July 19, 2004.

20
21 4. Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND
22 AND WORK EXPERIENCE PRIOR TO YOUR PRESENT
23 POSITION.

24 A. I hold a Bachelor of Science Degree in Management
25 Accounting with an emphasis in Computer Science from Ball
26 State University. Prior to being transferred to the Company's
27 Hopewell facility, I was the Corporate Office Manager for over
28 four years at the Ohio-American Water Company in Marion,
29 Ohio. Prior to the Marion assignment, I served as District
30 Manager for Ohio-American's Tiffin District for over 8 years, and

1 as Operations Manager for Ohio-American Water Company's,
2 Lawrence County District for approximately three years from
3 1981 to 1984. I have also held a Class I Water Operators License
4 in the State of Ohio. I attended the NARUC Western Utility Rate
5 School. I have participated in and attended a number of
6 Company training and professional development programs
7 supporting the water utility industry. I have also attended
8 various seminars on management development, materials
9 management, government contracting, and water utility
10 management.
11

12 5. Q. ARE YOU AFFILIATED WITH ANY PROFESSIONAL
13 ORGANIZATIONS?

14 A. Yes. I am a member of the American Water Works Association,
15 and the National Association of Water Companies.
16

17 6. Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY
18 REGULATORY AGENCIES REGARDING WATER UTILITY
19 COMPANIES?

20 A. Yes. I have testified before the Public Utilities Commission of
21 Ohio and the State Corporation Commission in Virginia.
22

23 7. Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AS
24 VICE PRESIDENT OF TAWC?

25 A. I serve as the Chief Executive Officer for the Company in
26 Tennessee. I oversee the strategic planning and local policy
27 process of the company in Tennessee.

1
2 **8. Q. WHAT IS THE GENERAL AREA SERVED BY TENNESSEE-**
3 **AMERICAN WATER COMPANY?**

4 **A. Tennessee-American supplies water service and public and**
5 **private fire service to over 71,000 customers in the City of**
6 **Chattanooga and surrounding areas plus three large sale for**
7 **resale customers: Signal Mountain, Fort Oglethorpe and**
8 **Catoosa Utility District.**
9

10 **9. Q. WILL ALL OF THE ITEMS CONTAINED IN UTILITY**
11 **PLANT FOR WHICH THE COMPANY IS REQUESTING**
12 **RATE BASE TREATMENT BE USED AND USEFUL?**

13 **A. Yes.**
14

15 **10. Q. MR. WATSON, WHAT DOES TENNESEE-AMERICAN**
16 **WATER COMPANY DO AS A PART OF ITS DAY-TO-DAY**
17 **OPERATIONS TO CONTROL COSTS?**

18 **A. The first element of cost control has to start with the O&M plan**
19 **developed for the operating year. The Company's plan is**
20 **developed utilizing a zero-based approach, with reliance on**
21 **historical cost of service elements, and looking at ways through**
22 **technology/productivity/value-based management decisions to**
23 **provide maximum value to the customers.**

24 **The plan is prepared and controlled utilizing cost center concepts**
25 **– thus specific, proposed expenditures can be reviewed, and actual**
26 **expenditures compared to those planned, as well as applying the**
27 **test of need for a particular expenditure. Each month plans are**

1 reviewed relative to current operating conditions and an
2 appropriate forecast developed for the remainder of the year
3 regarding any expected changes in revenues or expenses.

4 Other benchmarks are constantly reviewed by the company.
5 Customers served per associate shows productivity increases in
6 labor. Based on authorized associate levels in 2004, the ratio has
7 increased slightly in excess of 29.5% since 2003---ratio of 522
8 customers per associate in previous case compared with the
9 current historical test year ratio of 676.

10 Operation and Maintenance cost per customer are also
11 scrutinized, with our goal of keeping year to year increases at or
12 below the rate of inflation. Over the six (6) years our O&M cost
13 per customer has increased only 1.5% per year on average.

14 Capital expenditures of the Company are planned and scrutinized
15 to assure that needed facilities are identified, that facilities are
16 scheduled for construction within an acceptable time frame, and
17 that they are cost-effectively constructed. The primary planning
18 vehicle of the Company in the area is our least/cost comprehensive
19 planning study.

20 Technological advances are consistently reviewed to improve
21 productivity, and thus add value to the service we provide our
22 customers.

- 23 • In 1998 and 1999 the accounting department implemented
24 new J.D. Edwards payroll, inventory, accounts payable,
25 purchase order, fixed asset and job cost systems as well as
26 FAMS system and the In Source CS for Income Taxes.
- 27 • The Production Department has added radio telemetry

1 capabilities to the production facilities in the distribution
2 system. The new addition will further enhance the control
3 and capability of the company's booster stations; storage
4 tanks and pressure control/monitoring stations.
5
6
7

8 **11. Q. WHY DOES TENNESSEE-AMERICAN WATER COMPANY**
9 **NEED TO FILE AT THIS TIME?**

10 **A. The primary reason for this rate request is the increase in pension**
11 **expense, and operating costs associated with the production of**
12 **water to our customers including fuel, power, and water**
13 **treatment chemicals investment in utility plant investment which**
14 **represent approximately 71.1% of the requested increase.**
15 **Tennessee-American is under constant pressure to continue to**
16 **make capital investments which enhance the integrity of service to**
17 **its customers. This pressure comes from various sources such as**
18 **federal and state regulations, needed infrastructure replacement,**
19 **customer expectations, and the water quality and service goals of**
20 **the Company.**

21 **12. Q. PLEASE EXPLAIN THE ABOUT THE COMPANY'S**
22 **REDUCTION IN ESTIMATED BILLS?**

23 **A. The Company as worked very hard to address obtaining actual**
24 **meter readings due to concerns raised in the last rate filing**
25 **regarding estimated bills sent to our customers. Over the past**
26 **eight months, the company has achieved actual meter readings on**
27 **97.31% of the company's meters. We further have reinforced the**

1 importance of this task to our workforce here in Tennessee.

2 13. Q. DOES THIS CONCLUDE YOUR TESTIMONY?

3 A. Yes.